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OFFICE OF THE
EXECUTIVE SECRETARY

May 22, 2001

VIA HAND DELIVERY

Mr. K. David Waddell
Executive Secretary
TENNESSEE REGULATORY AUTHORITY
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

01-00451

RE: Petition of United Telephone Company to Change and Increase Certain Intrastate Rates and Charges So As to Permit it to Earn a Fair and Adequate Rate of Return on its Property Used and Useful in Furnishing Telephone Service to its Customers in Tennessee and to Adopt New and Realistic Depreciation Rates for Central Office Equipment.

Dear Mr. Waddell:

Enclosed please find original and thirteen copies of a sworn Petition to be filed in behalf of our client, United Telephone Company, pursuant to T.C.A. §65-5-203. We are simultaneously with the filing of this Petition filing with Mr. David Foster five copies of certain Tariffs for United Telephone Company which are explained in the Petition and have an issue date of May 22, 2001 and an effective date of June 22, 2001.

I am also enclosing original and thirteen copies of the Sworn Testimony and Exhibits of the following witnesses who will testify in behalf of the Company:

Mr. Herbert Bivens
Mr. Joe Enoch, CPA

I am sending a copy of this letter and a copy of the Petition to Richard J. Collier, Esq., Dr. Chris Klein and Timothy Phillips, Assistant Attorney General.

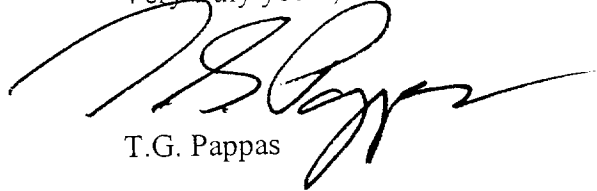
Also enclosed is our check in the amount of \$25.00 made payable to the Tennessee Regulatory Authority for the filing fee.

Mr. K. David Waddell
May 22, 2001
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If you have any questions or need any additional information, please do not hesitate to let me know.

With kindest regards, I remain

Very truly yours,

A handwritten signature in black ink, appearing to read 'T.G. Pappas', with a long, sweeping horizontal line extending to the right.

T.G. Pappas

Enclosures

cc: Richard J. Collier, Esq.
Dr. Chris Klein
Timothy C. Phillips, Esq.
Mr. Terry Buckner
Mr. Herbert Bivens
Mr. Joe Enoch
R. Dale Grimes, Esq.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

Nashville, Tennessee

IN RE: PETITION OF UNITED TELEPHONE)
COMPANY TO CHANGE AND INCREASE)
CERTAIN INTRASTATE RATES AND) Docket No. 01-
CHARGES SO AS TO PERMIT IT TO EARN A)
FAIR AND ADEQUATE RATE OF RETURN)
ON ITS PROPERTY USED AND USEFUL IN)
FURNISHING TELEPHONE SERVICE TO ITS)
CUSTOMERS IN TENNESSEE AND TO ADOPT)
NEW AND REALISTIC DEPRECIATION RATES)
FOR CENTRAL OFFICE EQUIPMENT)

P E T I T I O N

United Telephone Company (Company), a Tennessee Corporation authorized to conduct and conducting a public utility business in the State of Tennessee, does hereby simultaneously file with the Tennessee Regulatory Authority (Authority), this petition and a revised schedule of intrastate Tariffs (Tariffs) to become effective on billing dates thirty days after the filing of this Petition and requests that the Authority pursuant to T.C.A. § 65-5-201, et seq., hear and determine that the increased intrastate rates all as reflected in the Tariffs are just and reasonable and that the proposed change in depreciation rates of central offices and the equipment associated therewith are also just, fair and reasonable and should be approved. In support of these requests the Company avers that:

1. The Company is a public utility as defined in T.C.A. §65-4-101 and is engaged in furnishing local exchange telephone service, and access to intraLATA and interLATA exchange carriers subject to the jurisdiction and supervision of the authority pursuant to Chapter 4 and Chapter 5 of Title 65 of Tennessee Code Annotated.

2. The Company provides digital, single party telephone service to subscribers in eight (8) exchanges located in Belfast, Chapel Hill, College Grove, Estill Springs, Flat Creek, Fosterville,

Nolensville and Unionville. The service area of the Company lies immediately south of Metropolitan Nashville and includes portions of Bedford, Davidson, Franklin, Marshall, Moore, Maury, Rutherford and Williamson counties in middle Tennessee. Interstate Highway 24 lies to the east, Interstate Highway 65 lies to the west and U.S. Highway 64 lies to the south providing excellent transportation facilities to this area. These three major highways form a triangle around the service area of the Company with the apex of the triangle being located at Nashville. Included within the bordering of the triangle are the cities of Murfreesboro, Manchester, Tullahoma, Winchester, Fayetteville, Shelbyville, Lewisburg, Columbia, Franklin, Smyrna, LaVergne and portions of Metropolitan Nashville. The system has grown from 10,000 subscribers in 1996 to 14,377 as of December 31, 2000 and is projected to have 20,250 by the year end 2005.

3. The Company seeks to provide the best economically feasible telecommunications services to the primarily rural area of middle Tennessee that it serves. The facilities put in place between 1996 and December, 2000 were financed by a RUS loan of \$23 million dollars (approved by the TRA in 1996). The improvements made with the proceeds of this loan have provided the advance telecommunications technology that the Company's customers will require as they make the transition into the twenty-first century.

4. The Company has acted in compliance with the FYI Tennessee Master Plan and the Authority's Order in Docket No. 96-00-143, approving the Tennessee State Telecommunication Modernization Plan (STMP), the Rural Service. The RUS loan funds were used to provide a host switch, 32 remote switches, and necessary outside plant during this period for the following purposes:

- (a) To upgrade outside plant and central office facilities in the entire system as necessary to accommodate the estimated five-year growth projection of 14,377 access lines.
- (b) To upgrade the existing digital central office equipment to form a single electronic network for the system with Chapel Hill as the host office. While UTC continues to provide call waiting, call forwarding, three way calling, and caller-ID among other custom calling features to all customers in the system.
- (c) To connect all central offices with fiber optic cable facilities forming one network. This design will allow for the expeditious deployment and integration of such emerging technologies as from time to time become commercially feasible. The fiber optic network will be available for distant learning services and will be routed near all schools and medical facilities in the area.
- (d) To provide reliability of the network during electric power outages by allowing for reliable powering of ordinary voice telephone service operation through the provision of battery backup and auxiliary power generators, stationary or portable, as required.
- (e) To allow transmission and reception of data at rates sufficient for the information superhighway by replacement of existing toll and EAS copper facilities with fiber optic cable.
- (f) To upgrade switching and transmission facilities, provide for necessary unloaded plant, and otherwise modify the system as required to furnish ISDN or other equivalent high speed data services as provided in the Tennessee FYI Master Plan.
- (g) To provide redundant routing on fiber optic transmission facilities from every exchange to the host office at Chapel Hill, and to the remotes within each exchange where feasible.
- (h) To provide switching equipment and capability for equal access, for toll rating and recording features, and to provide adequate space for these and other operating and management functions.

5. The Company would state that its overall goal is to enter the twenty-first century with a system capable of providing the most modern telephone and data services that can feasibly be made available. It has engaged competent engineering companies to assist it in developing a master plan for development that points a clear direction for the future and gives criteria for plant additions and modifications while leaving the timing and equipment specifications to be market and

availability driven. Its plan is to continue upgrading outside plant and central office facilities, provide additional remote switches that will reduce loop link, so as to make non-loaded plant available to all customers and maximize the use of existing cable to accommodate the estimated five year growth projections of 20,250 access lines.

6. The cost of the improvements that have been made over the last five years exceeded the \$23 million loan from RUS. The Company is in the process of applying for an additional loan to finance its five year construction plan. The total loan to be applied for will be approximately \$26 million. A copy of the Five-Year Construction Plan has been filed with its application for a RUS loan and is attached hereto as Exhibit A to this Petition.

7. Under the present rates, the Company's revenues and revenue projections are not sufficient and cannot be made sufficient: (a) to allow the Company to earn a fair rate of return to which it is entitled under Article 1, Section 8 of the Constitution of Tennessee, and the 14th Amendment to the Constitution of the United States; (b) to provide a fair rate of return on its investment for a reasonable period; (c) to attract on reasonable terms the large sums of additional capital required to adequately maintain, expand and improve the Company's plant in Tennessee to meet the needs of the public for additional improved telephone service and to maintain existing service levels; (d) to maintain its credit; and, (e) to maintain its operations at a level that will not be materially impaired or damaged.

8. The Company would like to be in a position to continue its upgrading program and improve the quality of service offered its customers, but the Company cannot provide required new facilities, maintain existing ones adequately, and meet the demands of the subscribers for the future with an unrealistic low rate of return. The Company has no other alternative but to petition this

Authority to permit it to place higher rates into effect in order to: (a) avoid material impairment or damage to the Company's long range operations; and (b) to enable the Company to earn a fair rate of return on its Tennessee operations during the foreseeable future.

9. As part of this filing the Company requests that its approved depreciation life (rates) for central office equipment be reduced from the present twenty-five year life to a more realistic 12 1/2 year life. With the changes that are being made in the telephone industry, a twenty-five year life is unrealistic under present operating conditions.

10. The Company has filed simultaneously with this petition revised tariffs effective thirty days after the filing date of the petition designed to produce a portion of the additional gross revenues needed. The new tariffs as filed, if approved would: (a) remove as separate billed items for touch tone telephone of \$1.00 for residential service and \$1.50 for business lines and include these charges in the basic telephone charges; (b) remove the temporary credit of \$2.00 per month on the residential lines and \$4.00 per month on the business lines which were placed in effect by the Tennessee Public Service Commission in Docket No. U86-7475. These "temporary" credits were placed in effect in 1988 because of an over earning situation and were intended to be temporary; (c) increase most of the residential rates by \$1.00 per month and the business rates by \$4.00 per month. The testimony of the Company's witnesses will explain the differences in exchange rates, primarily based on calling scope. If the requested changes including the lifting of the credits are approved by the authority, most of the residential rate would be \$12.44 per month and the business lines would be \$21.44 per month. As stated above customers would no longer be billed separately for touch tone phones as the \$1.00 charge heretofore separately billed would be combined into the basic charge since all telephones are now touch tone. Also the customer would not longer receive the temporary

credit of \$2.00 and \$4.00 granted in 1988. If the requested increase in charges including the lifting of the credits and the combining of the touch tone charge are approved by the Authority, the exchange rates would be as follows:

Residential Lines

(a)	Belfast, Chapel Hill, Estill Springs, Flat Creek, Fosterville 437, Unionville	12.44
(b)	College Grove, Fosterville 233, Nolensville 776	13.94
(c)	Nolensville 941 (No Increase)	15.94

Business Lines

(a)	Belfast, Chapel Hill, Estill Springs, Flat Creek, Fosterville 437, Unionville	21.44
(b)	College Grove, Nolensville 776, Fosterville 233	25.44
(c)	Nolensville 941	29.44

Key/PBX Lines

(a)	Belfast, Chapel Hill, Estill Springs, Flat Creek, Fosterville 437, Unionville	32.50
(b)	College Grove, Nolensville 776, Fosterville 233	36.50
(c)	Nolensville 941	40.50

11. The Company avers that the total additional annual revenue to the Company during the test year, if the requested rates are approved, would amount to 456,914 and that of that amount \$138,142 would come from the lifting of the credits and \$138,142 would come from the \$1.00 a per month increase for residential rates and the \$4.00 per month for increase in commercial rates. The

balance of \$180,630 would come from the increase in service charge revenues as set out in Exhibit 11 of the Testimony of Mr. Joe Enoch, the Company's accounting witness.

12. As will be testified to and as shown by the exhibits filed by Mr. Enoch, the Company selected as the test year the twelve months ended December 31, 2000, and has adjusted the operating revenues, expenses and taxes to provide normalized amounts by total Company operations for that period. The adjusted test year level of operations was then restated to an attrition year level for the twelve months ending December 31, 2002. The resulting earned rate of return for the attrition year, using current rates, would be 2.63% on a rate base of \$38,546,378 and operating income of \$1,014,562. For the attrition year 2002 and with the changes proposed the resulting earned rate of return would be 4.85%. See Exhibit 1 to Testimony of Joe Enoch. This is less than what is fair and reasonable but under present competitive conditions as much as can be requested.

13. Mr. Joe Enoch will testify as to the Company's capital structure, the cost of debt and preferred stock and what would be a fair rate of return for the attrition period. The testimony and exhibits of Mr. Enoch will show that the capital structure that should be used for the Company for the years ending December 31, 2001-2002. The long term debt, its ratio, cost, and weighted cost and common stock (equity component) are as follows:

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	0.453%	2.000%	0.009%
Long Term Debt	27.715%	5.000%	1.386%
Long Term Debt	53.533%	6.250%	3.346%
Common Stock	<u>18.299%</u>	<u>11.500%</u>	<u>2.104%</u>
	<u>100.000%</u>		<u>6.845%</u>

14. The Company proposes that it be allowed to place into effect customer rates that will produce an overall rate of return of only 4.82% on a rate base of \$37,766,990. The additional gross revenues required would be approximately \$438,342. The amount requested will not provide the

minimum additional annual gross revenues that the Company is entitled to, however the Company does not believe it can raise its customer rates any higher at this time and remain competitive in the changing market conditions that it is now confronted with and in the foreseeable future.

15. The Company avers that the above proposed changes in customer rates and depreciation are necessary and proper and are designed to afford the Company the opportunity to approach achieving earnings that are fair and reasonable on its investment in Tennessee. The Company further avers that the tariffs as filed, the return on equity and the overall rate of return it has requested are all fair and reasonable and in the best interest of the Company and the customers it serves and therefore should be approved.

WHEREFORE, the Company requests the Authority to:

(1) schedule a hearing, after proper notice, for the consideration of the approval of the tariffs filed which are designed to provide additional annual revenues by: (a) removing the credits heretofore allowed; (b) increase the residential line charges by not more than \$1.00 and the business line charges by not more than \$4.00; and, (c) increase the one time service charges. The new rates to become effective on the first billing date after the tariffs go into effect;

(2) enter an order approving the Company's proposed schedule of rates as filed with the Authority designed to increase the Company's intrastate annual revenues by \$456,914 as set out in the tariffs;

(3) approve the changes in depreciation charges as proposed by the Company on the central office equipment reducing the depreciation life from twenty-five years (25) to twelve and one-half years (12.5).

Grant such other relief as may be required in light of the evidence to be produced at the hearing.

THIS, the 2nd day of May, 2001.

UNITED TELEPHONE COMPANY

By: Herbert Bivens
Herbert Bivens
General Manager

T.G. Pappas
T.G. Pappas
R. Dale Grimes
Bass, Berry & Sims PLC
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238-0002
(615) 752-6200
Attorneys for Petitioner

STATE OF TENNESSEE)
COUNTY OF Davidson

Herbert Bivens, makes oath that he is General Manager of United Telephone Company
Petitioner herein; that he has read the foregoing Petition and the contents thereof are true to the best
of his knowledge, information and belief.

Herbert Bivens
Herbert Bivens

Sworn to and subscribed before me
this 21st day of May, 2001.

Linda E. Hight
NOTARY PUBLIC
Commission expires
September 27, 2004

United has filed the following 5 year construction plan with RUS for loan approval.

United Telephone Company
Construction Cost Estimates
Total System

Central Office Equipment		
Upgrade Host Switch and RSM's	1,562,564	
Additional Remotes	4,713,136	
Taxes	376,542	
Sub-total		6,652,242
Lightwave Terminals	1,187,850	
Taxes	71,271	
Sub-total		1,259,121
Outside Plant		
Aerial Cable	8,188,500	
Aerial Fiber Optic Cable	1,486,603	
Install Customer Drops	1,994,100	
Taxes	580,794	
Sub-total		12,249,997
Land & Buildings		
New Remote Buildings	565,500	
New Land	195,000	
New Office in Nolensville & Estill	750,000	
Taxes	90,630	
Sub-total		1,601,130
Miscellaneous		
Auxiliary Generators (35KW)	630,000	
Portable Auxiliary Generators (15KW)	160,000	
Taxes	47,400	
Sub-total		837,400
Additional Requirements		
Preloan Engineering	75,000	
Postloan Engineering	3,040,226	
Sub-total		3,115,226
Removals		251,114
Total Loan Required		25,966,230

EXHIBIT A

UNITED TELEPHONE COMPANY
RATE CASE NO. 01_____
DIRECT TESTIMONY
HERBERT BIVENS

1. Q. Please state your name and business address.

A. My name is Herbert R. Bivens. I work for United Telephone Company at 120 Taylor Street, Chapel Hill, TN 37034.
2. Q. What position do you hold with United Telephone Company?

A. I began as Office Manager/Programmer in 1986 and became General Manager in 1995.
3. Q. Please describe your professional education and experience.

A. I have a Bachelor of Science with a major in Business and minor in Math from Union University in Jackson, Tennessee. I have been in telecommunications over 30 years. During that time I have attended many seminars, workshops, and other forms of telecommunications training to keep abreast of the ever-changing industry. In doing so, I feel that United can better provide the technology our customers want.
4. Q. What affiliation do you have with professional societies?

A. United Telephone Company is a member in good standing of the Tennessee Telecommunications Association(TTA), Organization for the Promotion and Advancement of Small Telecommunications (OPASTCO), and United States Telecommunications Association (USTA).
5. Q. Please summarize your duties as general manager of United Telephone Company.

A. I plan, direct, coordinate, and control the day-to-day operations of the company, including subsidiary activities and formulate both short-range and long-range business plans in accordance with Board of Directors' and company goals. I determine objectives, establish operating procedures, and ensure the success of the company within guidelines and authority established by the board/owner. I ensure that all operations comply with applicable federal, state, and local regulations. I represent the company before regulatory agencies, legislative bodies, and industry associations. I evaluate new business opportunities and recommend new services to the board/owner. Typically all functional department heads report to me.

6. Q. Have you previously testified before any regulatory agencies on matters affecting United Telephone Company and if so when and in what proceeding?
- A. I have only testified to the Staff. Once during a show cause on earnings in which a temporary credit was applied to the customer's bill in Docket No. U86-7475. In 1989 the 10% credit was removed but the \$2 and \$4 credit is still in place today. Also in 1997, Mr. Pappas filed on behalf of United Telephone Company for rate rebalancing and the removal of the \$2.00/\$4.00 credit.
7. Q. What is the purpose of your testimony in this proceeding?
- A. I will assist and provide information to support United's need for an increase in the basic service and service charge rates.
8. Q. Please describe what the Company is seeking in this proceeding.
- A. United is requesting that the \$2 and \$4 credit against residential and business customers be removed. We are asking that the tariffed basic monthly rates be increased \$2, \$3, and \$4 as detailed on Exhibit 9 to Mr. Enoch's testimony and in the tariffs that we have filed. We are proposing elimination of the monthly Touch-Tone charge of \$1 and \$1.50 as a separate item and include it as part of the basic rate. United is also requesting increases in service order charges as detailed in Enoch Exhibit 11 that are more reflective of today's cost of providing service. Since United has faced extraordinary retirements of central office equipment in the completion of replacement construction on several occasions, we are requesting a decrease in depreciation rates for central office equipment from 25 to 12.5 year life. Currently United is faced with an amount over \$3 million of extraordinary retirement as reflected in Enoch Exhibit 12. United is requesting this be amortized over ten years.
9. Q. Mr. Bivens, did you participate in the Company's decision to file for a rate adjustment?
- A. Yes.
10. Q. Why does the Company seek a rate increase?
- A. The Company's current rates are insufficient to produce an operating income sufficient to meet the needs and demands of its customers. United has acted in compliance with the FYI Tennessee Master Plan and the Authority's Order in Docket No. 96-00-143, approving the Tennessee State Telecommunications Modernization Plan (STMP), the Rural Service. United is positioned in a high growth area of Middle Tennessee and must be able to meet the needs and demands of its customers. We have completed the expenditure of the \$21 million RUS loan funds and have applied for an additional \$26 million RUS loan. The new

customers add revenue to our operations but at the same time require funds to provide switching equipment and facilities on which United should earn a fair return.

11. Q. Has the Company used an attrition test year in this rate case and, if so, please explain?
- A. Yes it has. The Company has projected revenue and expenses to reflect the twelve month period ending December 31, 2002. Rate base and capital have been projected to the mid point of the rate year to July 1, 2002. If rates are to be set properly reflecting the cost of providing service a forward looking or projected test year must be considered. Otherwise, the new rates will ignore significant factors with which the new tariff must co-exist. Mr. Joe Enoch, the Company's accounting and cost of capital witness, will present testimony and exhibits to support these projections.
12. Q. In addition to increasing rates, you have asked in the petition that the depreciation rates for central office equipment be reduced from the present 25 year depreciation rate to 12 ½ years. Is that correct?
- A. Yes.
13. Q. Please explain why you believe this should be done and why it is necessary at this time.
- A. Since the first digital switch facilities United installed in 1979, we have had extraordinary retirements on three different occasions which are the direct result of growth and technology limitations in the central office equipment.
14. Q. The Company requests that the monthly touch tone separate billing of \$1.00 for residential service and \$1.50 for business lines be removed as separate billing items. Please explain why you think this should be done and how these charges will appear in the future on the customers' bills.
- A. I have reviewed the customer records of United Telephone Company and concluded that all customers are paying this charge. Also based upon customer inquiry, complaints, and as others have reflected, "This charge is not reflective of the times", about the touch-tone charge, I propose to include this as part of the basic rate.
15. Q. The Company has also asked that the temporary credit of \$2.00 per month on residential lines and \$4.00 a month on business lines placed in effect in 1988 in Docket number U86-7475 be removed. Please explain why these credits were imposed and why you believe they should now be removed.

- A. At that time we were growing at a comfortable pace without having to invest in major infrastructure. Also telephone companies were receiving what I referred to as "windfall" profits arising from the restructure of access charges at divestiture and the Tax Reform Act of 1986 that occurred shortly thereafter. The combination of these events led to over earnings within the Company.
16. Q. In the petition it was stated that the Company has applied for a RUS loan in the approximate amount of \$26 million dollars to support a construction program over the next five year period. Please explain the reasons for the loan and the studies that have been made showing the potential growth of the customer base of the Company.
- A. I would say that it is the Company's goal to provide the most modern telephone and data services that can feasibly be made available. We have engaged competent consulting and engineering companies to assist in developing needed construction for central office switching and plant additions and modifications. The growth in access lines from 10,000 to 14,400 during the last five years was in line with the forecast provided in the previous RUS loan design. The new RUS loan application has been filed with access lines increasing to 20,250 by the year 2005.
17. Q. It is stated in the petition that because of competitive conditions the Company actually is asking for less of an increase in rates than what it considers it is entitled to and what it considers to be fair, just and reasonable. Please explain why the company is not seeking what it believes to be a fair, just and reasonable increase.
- A. In comparing rates of surrounding communities of other companies, the rates we are asking for are in line with the rates we are asking for.
18. Q. Does the Company have any other plans or strategy as to how to increase its earnings? And, if so, please explain.
- A. We have proposed to increase our one-time service charges to reflect present day increased costs. These increased prices are projected to produce an additional \$180,630 during the year 2002 if approved. We think they are fair and reasonable and therefore should be approved.
19. Q. Does this conclude your testimony?
- A. Yes.

STATE OF TENNESSEE

COUNTY OF Anderson

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Herbert Bivens, who, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of United Telephone Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the foregoing four pages.

Herbert Bivens
Herbert Bivens

Sworn to and subscribed before me
this 1st day of May, 2001.

My Commission expires: September 15, 2004

Linda E. Hylt
Notary Public

TESTIMONY TO SUPPORT REQUEST FOR RATE INCREASES
UNITED TELEPHONE CO., INC.

1. **Q.** Please state your name, education and experience as it would apply to this case.

A. My name is Joe M. Enoch. I am a Certified Public Accountant in public practice in Dyersburg, Tennessee. I have a Bachelor of Business Administration with a major in Accounting from University of Mississippi and a Masters of Science with a major in Accounting from the University of Memphis. I have been in public practice for over twenty-eight years. During that time I have specialized in providing services to utility clients. My firm has audited United Telephone Co., Inc. since the owners acquired the Company and I have personally assisted on the audit since 1976.

2. **Q.** What is the purpose of your testimony in this case?

A. I have assisted the Company in preparing exhibits and schedules to support the Company's need for an increase in the basic service and service charge rates.

3. **Q.** In your preparation of the twelve (12) case exhibits what have you determined?

A. The Company should have pursued this case more than a year ago. The Company's customer growth and technology changes have required considerable new investment in central office equipment and outside plant.

4. **Q.** As an overview, what is the Company requesting?

A. The Company is requesting that the \$2 and \$4 credit against residential and commercial customers be removed and a \$2 and \$4 increase in the basic monthly rate be allowed as detailed on Exhibit 9. The Company is also requesting increases in service order charges as detailed on Exhibit 11. As a part of this filing, the Company is requesting a decrease in depreciation rates for central office and related equipment from a 25 year life to 12.5 years. The decrease in the depreciable lives can be justified since the Company has faced an extraordinary retirement in the completion of the central office replacement construction that amounts to over \$3 million. The calculation of the extraordinary retirement is reflected on Exhibit 12. The Company's request also includes allowing the amortization of the extraordinary retirement over ten years.

5. **Q.** Did you develop a cost of capital for United?

A. On Exhibit 3, I used the existing debt issues as a basis for determining the cost of that portion of the capital structure. The Company has three types of notes issued by REA, RTB and RUS. The Company has a small amount of old REA 2% notes and in excess of \$11.6 million in 5% notes. Recent notes issued by RUS are based on current interest rates and average 6.25%. I used a rate of return to common equity of 11.5%. I believe this rate is justified considering the current state of the telecommunications industry. Since divestiture in the early 1980s, the telecommunications industry has been in a state of change that has been very difficult for the smaller independent companies. Revenues from long distance service once helped to subsidize the basic service rates. Staying competitive from the view of the customer's service alternatives has also threatened the smaller companies. All of these factors should be taken into consideration in establishing a fair rate of return to the Company's common shareholders.

6. **Q.** What period did you use for your test period?

A. Initially, I used the six months ended June 30, 2000 to base forecast of earnings for 2001-2002. My forecast was prepared to reflect 2001 and 2002 using the current rates and 2002 using the items requested by the Company. As the end of the year 2000 was close at hand, I still for the most part used the six month figures to develop the revenues and expenses. I compared the actual 2000 results to the forecast for 2000 and found the forecast to be on point. The forecasted revenues and expenses were adjusted in places management believed necessary to properly reflect certain up coming changes. Exhibit 10 details the forecasted revenue for 2001 and 2002 under present rates and 2002 under the proposed rates. The various types of revenue are summarized on Exhibit 6. Forecasted Comparative Income Statements using the revenues from Exhibit 6 are developed on Exhibit 5. The income and operating taxes included in the Company income forecast are calculated on Exhibits 7 and 8.

7. **Q.** How did you determine rate base?

A. With the assistance of Company personnel, I estimated the in service dates for the remainder of the current RUS loan projects. This information was then compiled to estimate the depreciation expense and related Accumulated Depreciation balances for the test period. With the sustained growth expected in the future, additions to telephone plant were estimated beyond the current loan. Exhibit 2 details the various elements included in the Company's rate base. The Company is in the process of completing the loan application for a new loan for \$28 million that would be expended over a five year period. Depreciation was calculated using the requested depreciation rates for the year 2002.

8. **Q.** Why are you requesting the depreciation rates be changed for central office and related equipment?

A. The tremendous revolution in technology has caused almost continuous changes required in the central office equipment (COE). While the Company expects the new COE to last longer than the most recent COE addition that was used for approximately 7 years, the COE will still need upgrades and capacity increases as the Company continues to grow. I believe that a 12.5 year life takes into consideration all of the relevant factors that should be used in determining the depreciable life of the COE. The requested rates, in my professional opinion are certainly more in line than the existing depreciable lives as approved. A more accurate depreciable life should eliminate the need for future extraordinary retirements.

9. **Q.** What other impact does the decrease in the depreciable lives have on this request?

A. The faster depreciation rates also decrease rate base since the depreciation increases the accumulated depreciation reserve at a quicker pace. The increased book depreciation also decreases the deferred taxes that would be experienced using the existing rates.

10. **Q.** Did you include the unamortized portion of the extraordinary retirement in rate base?

A. Yes, the unamortized balance of the extraordinary retirement was included in rate base. However, I decreased the total assuming a ten year amortization of the balance. I reflected the restoration of the extraordinary retirement back into the accumulated depreciation reserve.

11. **Q.** How did you develop the impact of the requested rates on revenue?

A. The Company has forecasted the growth in access lines for the next five years. Past forecasts in this area have proven to be on point. We calculated the increase in revenue assuming that the requested rates would be allowed to be charged beginning in 2002. Exhibit 9 forecasts revenue using the average number of customers for the years 2001-2002 by using the beginning and ending number of customers forecast for each of those years. Exhibit 9 reflects forecasted revenue using current and requested rates. The requested rates applicable to each exchange were then multiplied times the average number of customers for that exchange. The additional revenue that would be generated from lifting the customer credit is estimated to be \$138,142. Additional revenue from the increase in customer rates will provide an estimated \$138,142. The increased service order charge rates should provide an estimated \$180,630 in additional revenue.

12. **Q.** Do your exhibits indicate the Company is achieving a fair rate of return under the present and requested rates?

A. No, exhibit 1 indicates that the Company's operating income will produce a rate of return at less than the developed fair rate of return with the present rates and still operate below the fair rate of return after the rate increases. This information indicates the need and urgency related to the approval of the Company's request.

13. **Q.** Mr. Enoch would you care to summarize your testimony?

A. Yes, if the market would allow for a greater increase in rates, my exhibits would have requested higher rates. United Telephone Co., Inc. is positioned in a high growth area of Middle Tennessee and must be enabled to meet the needs and demands of its customers. Current land developers have over 9,000 lots planned in residential subdivisions within United's area. The growth of the customer base is wonderful and trying at the same time. The new customers add revenue to United's operations but at the same time require funds to provide the switching equipment and service line investment on which United should earn a fair return. Approval of the requested rates will help ensure the Company gets a better return than under present rates.

14. **Q.** Does this conclude your testimony?

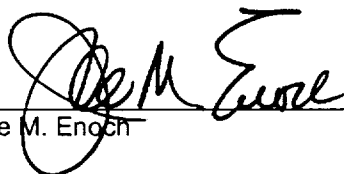
A. Yes.

STATE OF TENNESSEE

COUNTY OF DYER

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Joe M. Enoch, who, being by me first duly sworn deposed and said that:

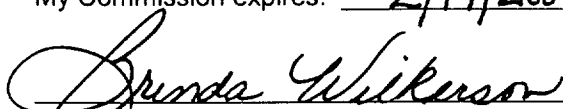
He is appearing as a witness on behalf of United Telephone Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the foregoing three pages.



Joe M. Enoch

Sworn to and subscribed before me
This 18th day of May, 2001.

My Commission expires: 2/19/2003



Notary Public

Results of Operations and (Revenue Deficiency) Revenue Excess
United Telephone Company, Inc.
For the Years Ending December 31, 2001 and 2002 (Present Rates)
and 2002 (Proposed Rates)

Line No.		Present Rates		Proposed Rates
		2001	2002	2002
1	Rate Base	\$ 36,140,853.19	\$ 38,546,378.12	\$ 38,546,378.12
2	Operating Income	814,975	1,014,562	1,868,427
3	Earned Rate of Return	2.25%	2.63%	4.85%
4	Fair Rate of Return	6.845%	6.845%	6.845%
5	Required Operating Income	\$ 2,473,784	\$ 2,638,439	\$ 2,638,439
6	Operating Income (Deficiency) Excess	\$ (1,658,809)	\$ (1,623,877)	\$ (770,011)
7	Gross Revenue Conversion Factor	0.603798754	0.603798754	0.603798754
8	Revenue (Deficiency) Excess	\$ (2,747,288.31)	\$ (2,689,434.42)	\$ (1,275,278.27)

Rate Base Forecast
United Telephone Company, Inc.
For the Years Ending December 31, 2001 and 2002

Line No.		2001		2002	
1	Utility Plant in Service Including CWIP	\$	49,942,122	\$	56,061,903
2	Unamortized Extraordinary Retirement	\$	2,889,685	\$	2,568,609
3	Materials and Supplies	\$	300,000	\$	300,000
4	Working Capital	\$	325,000	\$	350,000
5	Total Additions	\$	53,456,808	\$	59,280,512
6	Accumulated Depreciation	\$	12,386,931	\$	15,445,218
7	Accumulated Deferred Taxes	\$	4,921,122	\$	5,281,416
8	Customer Deposits	\$	7,901	\$	7,500
9	Total Deductions	\$	17,315,954	\$	20,734,134
10	Rate Base	\$	36,140,853	\$	38,546,378

Cost of Capital
United Telephone Company, Inc.
For the Years Ending December 31, 2001-2002

Line No.		Ratio	Cost	Weighted Cost
1	Long Term Debt	0.453%	2.000%	0.009%
2	Long Term Debt	27.715%	5.000%	1.386%
3	Long Term Debt	53.533%	6.250%	3.346%
4	Common Stock	18.299%	11.500%	2.104%
5	Total	100.000%		6.845%

Revenue Conversion Factor
United Telephone Company, Inc.
For the Years Ending December 31, 2001-2002

<u>Line</u> <u>No.</u>		<u>Amount</u>	<u>Balance</u>
1	Operating Revenues		1.000000
2	Uncollectible Ratio	0.011786 A/	0.011786
3	Balance		0.988214
4	State Excise tax	0.060000	0.059293
5	Balance		0.928921
6	Federal Inome Tax	0.350000	0.325122
7	Revenue Conversion Factor		<u>0.603799</u>

A/ Average of 1998 & 1999 uncollectible expense to total revenue before uncollectible expense

Comparative Income Statements
United Telephone Company, Inc.
For the Years Ending December 31, 2001-2002

Line No.		Present Rates		Proposed Rates
		2001	2002	2002
1	Total Revenues	9,716,113	10,728,483	11,185,397
2	Plant Specific	1,470,587	1,553,185	1,553,185
3	Plant Non-Specific(Excluding Depreciation)	363,845	391,629	391,629
4	Customer Operations	1,061,503	1,139,177	1,139,177
5	Corporate Operations	1,032,110	1,110,259	1,110,259
6	Depreciation and Amortization Expense	2,431,534	2,772,091	3,379,363
7	Taxes Other Than Income	777,596	826,175	826,175
8	Operating Income Taxes	1,763,963	1,921,406	917,182
9	Total Operating Expense	8,901,138	9,713,922	9,316,970
10	Net Operating Income for Return	814,975	1,014,562	1,868,427

Comparative Operating Revenue
United Telephone Company, Inc.
For the Years Ending December 31, 2001-2002 Under Present and Proposed Rates

Line No.		Present Rates		Proposed Rates	
		2001	2002	2002	2002
1	Local Service Revenue	3,172,845	4,067,710	4,524,624	
2	Network Access Service	5,872,010	5,984,670	5,984,670	
3	Long Distance Network Service	15,000	15,000	15,000	
4	Miscellaneous Revenue	784,513	802,125	802,125	
5	Uncollectible Expense	(128,255)	(141,022)	(141,022)	
6	Total Operating Revenues	9,716,113	10,728,483	11,185,397	

Taxes Other Than Income Taxes
United Telephone Company, Inc.
For the Years Ending December 31, 2001 and 2002

Line No.	2001	2002
1	Property Taxes	\$ 639,840.00 \$ 673,111.68
2	Franchise Tax	\$ 125,756.20 \$ 141,063.19
3	Other General Taxes	
4	TRA Inspection Fee	12,000.00 12,000.00
5	Total Taxes Other Than Income Taxes	\$ 777,596.20 \$ 826,174.87

Land	\$ 174,852.85	\$ 174,852.85
Buildings	\$ 2,122,846.33	\$ 2,122,846.33
Equipment	\$ 47,098,840.69	\$ 53,218,621.46
Autos	\$ 545,582.19	\$ 545,582.19
Inventories	300,000.00	300,000.00
Rents	60,356.10	63,373.91
Franchise tax @ .25/\$100	\$ 125,756.20	\$ 141,063.19

Excise and Income Taxes
United Telephone Company, Inc.
For the Years Ending December 31, 2001 and 2002

Line No.		Present Rates		Proposed Rates	
		2001	2002	2002	
1	Total Revenues	9,716,113	10,728,483	11,185,397	
2	Plant Specific	1,470,587	1,553,185	1,553,185	
3	Plant Non-Specific(Excluding Depreciation)	363,845	391,629	391,629	
4	Customer Operations	1,061,503	1,139,177	1,139,177	
5	Corporate Operations	1,032,110	1,110,259	1,110,259	
6	Depreciation and Amortization Expense	\$ 2,431,534	\$ 2,772,091	\$ 3,379,363	
7	Taxes Other Than Income	\$ 777,596	\$ 826,175	\$ 826,175	
8	Net Operating Income before Excise and Income Taxes	2,578,938	2,935,968	2,785,610	
9	Interest Expense	1,713,952	1,666,244	1,666,244	
10	Pre-tax Book Income	864,985	1,269,724	1,119,366	
11	Excise Taxable Income				
12	Excise Tax Rate	6.00%	6.00%	6.00%	
13	Excise Tax	51,899	76,183	67,162	
14	Pre-tax Book Income	864,985	1,269,724	1,119,366	
15	Excise Tax	51,899	76,183	67,162	
16	Federal Income Tax Taxable Income	813,086	1,193,541	1,052,204	
17	Federal Income Tax Rate	35%	35%	35%	
18	Federal Income Tax Expense	\$ 284,580	\$ 417,739	\$ 368,271	

Forecast of Basic Area Revenue Under Proposed Rates
United Telephone Co., Inc.
For the Years Ending December 31 2001 and 2002

Resident Lines	Credit	Present Rate	Proposed Rate	PRESENT RATES				PROPOSED RATES	
				Year 2001		Year 2002		Year 2002	
				Access Lines	Monthly Amount	Access Lines	Monthly Amount	Monthly Amount	Monthly Amount
Chapel Hill	-2.00	10.44	12.44	2354	20,901.66	2795	22,762.68	33,550.68	27,544.80
Nolensville 941	-2.00	15.94	15.94	1490	21,887.83	1806	24,086.74	40,983.18	13,723.93
Nolensville 776	-2.00	15.94	13.94	2535	37,238.68	3072	40,983.18	13,723.93	7,059.70
College Grove	-2.00	10.44	13.94	923	7,954.70	1007	8,309.18	16,601.48	24,469.48
Belfast	-2.00	10.44	12.44	529	4,561.82	583	4,789.70	2,786.45	4,602.26
Unionville	-2.00	10.44	12.44	1776	15,538.04	2028	16,601.48	3,573.09	5,266.50
Fosterville 233	-2.00	10.44	13.94	294	2,577.51	344	2,786.45	24,842.68	8,104.96
Fosterville 437	-2.00	10.44	12.44	377	3,305.17	440	3,573.09	190,147.87	
Estill Springs	-2.00	12.44	12.44	1838	16,006.46	2039	20,848.68		
Flat Creek	-2.00	10.44	12.44	606	5,237.02	668	5,498.66		
Business Lines		158,631.18	169,104.68	12722	135,208.89	14782	150,241.84		
Chapel Hill	-4.00	17.44	21.44	209	4,309.78	238	6,195.94	4,942.00	3,493.62
Nolensville 941	-4.00	25.44	29.44	104	3,449.48	124	5,086.53	8,969.74	3,218.32
Nolensville 776	-4.00	25.44	25.44	309	10,248.92	367	15,118.81	2,437.38	5,037.16
College Grove	-4.00	17.44	25.44	117	2,402.95	129	3,400.49	1,291.10	1,697.02
Belfast	-4.00	17.44	21.44	37	793.08	46	1,208.90	829.58	642.07
Unionville	-4.00	17.44	21.44	105	2,162.69	119	3,097.76	2,470.83	776.07
Fosterville 233	-4.00	17.44	25.44	25	528.00	32	820.00	1,151.12	2,587.71
Fosterville 437	-4.00	17.44	21.44	44	929.28	57	1,443.20	460.96	
Estill Springs	-4.00	19.44	21.44	112	2,636.88	124	3,727.08		
Flat Creek	-4.00	17.44	21.44	18	376.32	23	577.92		
Key/PBX Lines		22,363.20	25,791.20	1080	27,837.37	1259	40,678.62	29,034.62	
Chapel Hill	-4.00	28.50	32.50	68	1,723.14	77	3,674.82	2,437.38	5,037.16
Nolensville 941	-4.00	40.50	40.50	109	4,165.55	129	6,094.34	1,291.10	1,697.02
Nolensville 776	-4.00	40.50	36.50	31	1,184.70	37	1,733.25	829.58	642.07
College Grove	-4.00	28.50	36.50	43	1,083.13	48	2,278.19	2,437.38	5,037.16
Belfast	-4.00	28.50	32.50	21	563.29	26	1,250.77	829.58	642.07
Unionville	-4.00	28.50	32.50	18	455.34	20	968.05	2,437.38	5,037.16
Fosterville 233	-4.00	28.50	36.50	0	0.00	0	-	0.00	0.00
Fosterville 437	-4.00	28.50	32.50	15	393.75	19	896.88	594.87	1,716.14
Estill Springs	-4.00	31.50	32.50	49	1,380.98	54	2,587.41	0.00	
Flat Creek	-4.00	28.50	32.50	0	0.00	0	-	0.00	
Annualized Local Rate		11,916.00	12,673.00	354	10,949.88	411	19,483.72	14,245.33	
				13802	\$173,996.14	16041	210,404.18	\$233,427.82	
					\$2,087,953.66		2,524,850.15	\$2,801,133.86	

UNITED TELEPHONE COMPANY, INC.
REVENUE FORECAST FOR THE YEARS 2001 AND 2002 (PRESENT RATES)
AND 2002 (PROPOSED RATES)

	<u>OPERATIONS FORECAST</u>		
	<u>PRESENT RATES</u>		<u>PROPOSED</u>
	<u>2001</u>	<u>2002</u>	<u>RATES</u> <u>2002</u>
<u>REVENUES</u>			
<u>LOCAL REVENUES</u>			
BASIC AREA REVENUE	2,087,954	2,524,850	2,801,134
LOCAL ACCESS	(267,215)		
OPTIONAL EXTENDED AREA REVENUE	901,709	1,036,965	1,036,965
OPTIONAL REVENUE - VOICE MAIL	69,728	87,159	87,159
SERVICE ORDERS & FOREIGN LIST	380,669	418,736	599,365
OTHER LOCAL REVENUE			
TOTAL LOCAL REVENUES	<u>3,172,845</u>	<u>4,067,710</u>	<u>4,524,624</u>
<u>ACCESS REVENUES</u>			
NETWORK ACCESS - INTERSTATE	649,341	688,302	688,302
ACCESS REVENUE - PAYPHONE	2,521	2,773	2,773
SWITCHED ACCESS - INTERSTATE	2,448,082	2,497,043	2,497,043
SPECIAL ACCESS - INTERSTATE	96,439	105,118	105,118
SWITCHED ACCESS - INTRASTATE	2,500,000	2,500,000	2,500,000
SPECIAL ACCESS - INTRASTATE	175,627	191,434	191,434
TOTAL ACCESS REVENUES	<u>5,872,010</u>	<u>5,984,670</u>	<u>5,984,670</u>
LONG DISTANCE REVENUES	15,000	15,000	15,000
<u>MISCELLANEOUS REVENUES</u>			
DIRECTORY REVENUE	25,312	25,819	25,819
CABLE TV	-		-
NECA - INTRASTATE	43,693	45,877	45,877
NECA - INTERSTATE	20,368	21,386	21,386
CARRIER B&C INTERSTATE	163,910	167,188	167,188
CARRIER B&C INTRASTATE	531,230	541,855	541,855
NONREGULATED REVENUE			
NONREGULATED - INTERNET			
MANAGEMENT & ADMIN. SERVICE			
OTHER MISCELLANEOUS REVENUE			
TOTAL MISCELLANEOUS REVENUE	<u>784,513</u>	<u>802,125</u>	<u>802,125</u>
UNCOLLECTIBLE REVENUE	<u>(128,255)</u>	<u>(141,022)</u>	<u>(141,022)</u>
TOTAL OPERATING REVENUE	<u><u>9,716,113</u></u>	<u><u>10,728,483</u></u>	<u><u>11,185,397</u></u>

Forecast of Service Charge Revenue Under Proposed Rates
United Telephone Co., Inc.

Type of Order	Quantity	Current		Proposed		Revenue Increase
		Rate	Revenue	Rate	Revenue	
Installation	3097	25.50	78,973.50	49.00	151,753.00	
Outside Move	387	25.50	9,868.50	49.00	18,963.00	
Install Jacks	390	29.50	11,505.00	38.50	15,015.00	
Add Feature	4336	17.50	75,880.00	30.00	130,080.00	
Number Change	246	17.50	4,305.00	30.00	7,380.00	
Reconnect	2505	17.50	43,837.50	30.00	75,150.00	
Add Calling Plan	727	8.50	6,179.50	12.50	9,087.50	
Return Check	250	10.00	2,500.00	25.00	6,250.00	
			233,049.00		413,678.50	180,629.50

Components of Service Charge Items

Service Order Charge	8.50	12.50
CO Line Charge	9.00	17.50
Premise Visit Charge	8.00	19.00
Install Jacks	29.50	38.50

ANALYSIS OF EXTRAORDINARY RETIREMENTS
UNITED TELEPHONE COMPANY, INC.

LOCATION	ACCOUNT #	AMOUNT RETIRED	MONTHS IN SERVICE	MONTHLY DEPRECIATION RATE	ESTIMATED DEPRECIATION RESERVE	EXTRAORDINARY RETIREMENT
JULY, 1998						
CONCORD	2212.1200	147,354.89	72	0.0033333333	35,365.17	111,989.72
HICKORY DOWNS	2212.1300	168,670.87	72	0.0033333333	40,481.01	128,189.86
NOVEMBER, 1998						
NOLANSVILLE	2212.1000	327,004.24	76	0.0033333333	82,841.07	244,163.17
CONCORD	2212.1200	158,511.59	76	0.0033333333	40,156.27	118,355.32
HICKORY DOWNS	2212.1300	144,350.09	76	0.0033333333	36,568.69	107,781.40
CHapel Hill	2212.3000	1,045,738.72	76	0.0033333333	264,920.48	780,818.24
ESTILL SPRINGS	2212.5000	25,173.66	76	0.0033333333	6,377.33	18,796.33
JUNE, 2000						
BELFAST	2212.1100	150,683.23	96	0.0033333333	48,218.63	102,464.60
CONCORF	2212.1000	12,544.98	96	0.0033333333	4,014.39	8,530.59
HICKORY DOWNS	2212.1300	19,415.04	96	0.0033333333	6,212.81	13,202.23
GILES	2212.1400	140,578.01	96	0.0033333333	44,984.96	95,593.05
DEER POINT	2212.1500	120,994.40	96	0.0033333333	38,718.21	82,276.19
CANEY SPRINGS	2212.1600	108,716.05	96	0.0033333333	34,789.14	73,926.91
CHapel Hill	2212.3000	670,366.28	96	0.0033333333	214,517.21	455,849.07
CHapel Hill LUCENT	2212.3100	231,757.26	96	0.0033333333	74,162.32	157,594.94
ESTILL SPRINGS	2212.5000	108,014.58	96	0.0033333333	34,564.67	73,449.91
UNIONVILLE	2212.6000	527,482.24	96	0.0033333333	168,794.32	358,687.92
COLLEGE GROVE	2212.7000	98,135.15	96	0.0033333333	31,403.25	66,731.90
FOSTERVILLE	2212.8000	167,885.50	96	0.0033333333	53,723.36	114,162.14
FLAT CREEK	2212.9000	144,409.01	96	0.0033333333	46,210.88	98,198.13
		<u>4,517,785.79</u>			<u>1,307,024.17</u>	<u>3,210,761.62</u>

ANNUAL AMORTIZATION

BALANCE OF UNAMORTIZED RETIREMENT:

12/31/2001	2,889,685.46
12/31/2002	2,568,609.29
12/31/2003	2,247,533.13
	321,076.16